



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000

7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100

TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778

EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday July 15, 2011
8:30 a.m., Arizona Time

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:34 a.m., Arizona Time.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair
Mr. Tom Connelly
Mr. Chris Harris (via teleconference)
Professor Dennis Hoffman
Mr. Michael Townsend
Mr. Larry Trachtenberg
Mr. Steve Zeman

Absent: Mr. Tom Manos, Vice-chair
Mr. Kevin McCarthy

A quorum was present for the purpose of conducting business.

2. Presentation Regarding the PRIDE Award for Improvement

Mr. Paul Matson, Director, recognized the following nominees for the PRIDE Award for Improvement: Justin Lepley; Training & Development Team: Donna McNally, Aaron Chandler, Jean Langston and Juanita Primero; Remittance Advice Suppression Implementation Team: Nancy Bennett, Dave King, Dave Cannella, Brandon Heathcotte, Carrie Waith, Sarah Korish, Joe Bonno, Meskel Assefa, Pat Klein, Amy Scalet, Julie Lockwood, Sara Orozco, Arthi Perka, and Kanchan Nainani; Dan Haney; and the Debit Card Implementation Team: Nancy Bennett, Dave King, Dave Cannella, Brandon Heathcotte, Carrie Waith, Sarah Korish, Joe Bonno, Meskel Assefa, Julie Walker, Frank Perri, and Juanita Primero, Megha Choudhari, Mark Kimball, Arthi Perka, Kanchan Nainani, Sunitha Surendra, and Vig Bhaskaran.

The nominees were recognized by their peers because they exemplify the following PRIDE qualities of improvement: *"We appreciate individuals, teams or divisions who drive the agency forward with new and innovative ideas and solutions by promoting new ideas, solving problems, enhancing outcomes or performance, improving relationships, enhancing morale, and Increasing efficiency, effectiveness or reduce costs."*

Mr. Matson presented the PRIDE Award for Improvement to the award winner, the Debit Card Implementation Team.

3. Approval of the Minutes of the June 27, 2011 Public Meeting of the ASRS Board

Motion: Mr. Steve Zeman moved to approve the minutes of the June 27, 2011 Public Meeting of the ASRS Board. Prof. Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding a Presentation by CEM Benchmarking

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, Ms. Sara Orozco, Manager of Strategic Planning, and Ms. Jan Hartford, Director CEM Benchmarking, Inc. (CEM) presented the results of the FY2010 pension benefit administration benchmarking study conducted by CEM.

Ms. Hartford provided a brief summary of the benchmark results, noting particular strengths of the ASRS as compared to peers and briefly discussed the method and sources of data collection utilized in the production of the report.

Ms. Hartford cited noteworthy accomplishments and detailed the cost effectiveness of the ASRS; specifically, comparing and contrasting:

- Peer Characteristics
- Service Levels
- Total Costs
- Cost by Activity
- Staff Costs and Productivity
- Transaction Volumes
- Complexity
- IT and Major Projects

It was noted that the ASRS is a productive, low cost, and cost-effective operation which provides a high level of service.

Further, Ms. Hartford noted that moving forward; staff should consider focusing their attention on:

- Reducing the number of transactions per member without diminishing service quality or member satisfaction; and,
- Explaining the apparent relatively high cost of the third party and other costs and making recommendations for how they could possibly be reduced.

5. Presentation, Discussion and Appropriate Action Regarding the ASRS Total Fund Performance Review for the Period Ending 03/31/11

Mr. Gary Dokes, Chief Investment Officer, Mr. Dave Underwood, Assistant Chief Investment Officer, and Mr. Allan Martin, Managing Partner, NEPC, addressed the Board regarding the Total Fund Performance Overview for the period ending March 31, 2011, highlighting specific areas of interest and concern.

The Total Fund Performance for the period ending March 31, 2011 was:

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	4.8%	15.4%	4.5%	4.4%	5.6%	10.0%
Interim SAA Policy ¹	4.7%	15.0%	3.8%	4.6%	5.2%	9.8%
Excess Return	0.1%	0.4%	0.7%	-0.2%	0.4%	0.2%

*Interim SAA Policy: 32% S&P 500, 7% S&P 400, 7% S&P 600, 13% MSCI EAFE, 2% MSCI EAFE Small Cap, 3% MSCI Emerging Markets, 24% Barclays Capital Aggregate, 2% Barclays Capital High Yield, 4% NCREIF ODCE (lagged one quarter), 3% Russell 2000 (lagged one quarter), 3% Dow Jones/UBS Commodities Index

Note: Interim SAA Policy includes a proration of 2% Real Estate and 4% Private Equity, which are unfunded. Real Estate was prorated to domestic equity, international equity and fixed income, while Private Equity was prorated to domestic equity.

6. Presentation, Discussion and Appropriate Action Regarding the ASRS Lump Sum Retirement Threshold

Mr. Paul Matson provided a brief background on the subject and the rationale for this motion, noting that the ASRS staff has worked with the Legislature to change the Lump Sum Retirements threshold from the previous \$20.00 amount to a higher amount to adjust with current inflation. Because the ASRS is in the process of reprogramming for other current legislative changes, staff recommends keeping the threshold amount at \$20.00 until a future date to allow staff to concentrate on the other legislative changes.

Motion: Mr. Steve Zeman moved to set a temporary lump sum retirement threshold of \$20.00 per month to terminate no later than July 1, 2013. Mr. Larry Trachtenberg seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstention, and 2 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding Revisions to the ASRS Board Governance Policy Handbook

Mr. Paul Matson provided a brief overview of the subject. Mr. Matson added that with regards to the verbiage modification for the Director's Asset Class Committees, these changes were technical in nature since the Board already approved moving from a four-committee structure to a two-committee structure at its June meeting. Further, Mr. Matson discussed the Director's Position Description section, stating that this section serves as an outline of how to handle both single issue legislation as well as a complex legislation, based also on the discussion from the June meeting.

Motion: Prof. Dennis Hoffman moved to approve the modifications to the ASRS Board Governance Policy Handbook as presented. Mr. Mike Townsend seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstention, and 2 excused, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding the ASRS Preliminary Rate of Return for the Fiscal Year Ended June 30, 2011

Mr. Dave Byers noted that the ASRS Preliminary Rate of Return for the Fiscal Year Ending June 30, 2011 was almost 25.0%; the highest in 25 years. Mr. Byers extended his congratulations to both the Staff and the Investment Committee for being party to this extraordinary increase.

9. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Matson presented the Director's Report, noting a lawsuit has been filed in Maricopa County Superior Court challenging the provisions of SB 1614 and the change to the 53/47 split for contribution rates. The suit names the state of Arizona and the ASRS as defendants and it seeks an injunction in administering the new contribution rate split.

10. Presentation and Discussion with Respect to Informational Updates from the Operations Committee, Investment Committee, and External Affairs Committee

Mr. Michael Townsend, Chair, External Affairs Committee, stated that at this meeting time, no meeting has been scheduled.

Mr. Tom Connelly, Chair, Investment Committee (IC), said the next IC meeting will take place August 15, 2011 at 1:30 p.m.

Mr. Steve Zeman, Chair, Operations Committee (OC), said the next OC meeting will take place July 28, 2011 at 10:30 a.m. The budget update and the Biennial Risk Assessment for 2012/2013 will be discussed.

11. Board Requests for Agenda Items

No requests were made.

12. Call to the Public

No requests to speak were made.

13. The next regular ASRS Board meeting is scheduled for Friday, September 9, 2011, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

Mr. Byers added that this meeting is expected to be a strategic planning meeting.

14. Adjournment of the ASRS Board

Mr. Byers adjourned the Board meeting at 10:46 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Regina Landeros-Thomas
Board Secretary

Date

Paul Matson
Director

Date